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EUROPEAN TOURISM 2010 – Trends & Prospects

Quarterly Report - Q4/2010

EUROPEAN TRAVEL COMMISSION



EUROPEAN TOURISM in 2010: TRENDS & PROSPECTS

Quarterly Report (Q4/2010)

A quarterly insights report produced for the Market Intelligence Group
of the **European Travel Commission (ETC)**
by **Tourism Economics (an Oxford Economics Company)**

Brussels, February 2011
ETC Market Intelligence Report

European Tourism in 2010: Trends & Prospects (Q4/2010)

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Tourism Economics (an Oxford Economics Company)
on behalf of the ETC Market Intelligence Group

© Photo by Österreich Werbung / Viennaslide. Vienna's Christmas market on Rathausplatz in front of city hall.

Foreword

**Recovery continues
across Europe...**

We begin 2011 looking back at a strengthening recovery. With almost a full-year of data now available for 2010 we observe visitor growth for the vast majority of destinations. However, we remain in the recovery process with visitor levels still below our 2008 peak.

**...evidenced by strong
industry performance**

Nevertheless, industry performance has been encouraging. Hotel occupancy rates rose further across Europe to record average 5.5% growth through November and only the winter storms in late December deterred European air travel in the final weeks of the year.

We saw a resurgence in key markets such as Japan and Russia early in the year and, later, in the US and UK. Regional source markets provided a steady source of growth as well.

Looking forward, the economic recovery is more firmly entrenched and there are some positive signs going forward. On the positive side, solid profits have left corporations with significant cash which typically indicates a coming boost in hiring and investment. Meanwhile, future indices are solid and emerging market economies remain strong.

**The European debt
crisis looms as the
most immediate threat**

However, the prospects for the global economy are clouded with some uncertainty by the continuing European sovereign debt crisis and a tenuous consumer outlook.

Notwithstanding these risks, Tourism Economics' baseline forecast scenario anticipates overnight visitor growth to Europe of 3% 2011 and 4% in 2012.

**We face a better
environment than a
year ago**

Though we may not have emerged fully from the turbulence of the past two years, we are clearly experiencing the tailwinds of recovery. We trust you will find the analysis in this report helpful as you track your own destination's performance and seek to anticipate future trends.

Best wishes for a successful year!

Ms Petra Hedorfer
President
European Travel Commission

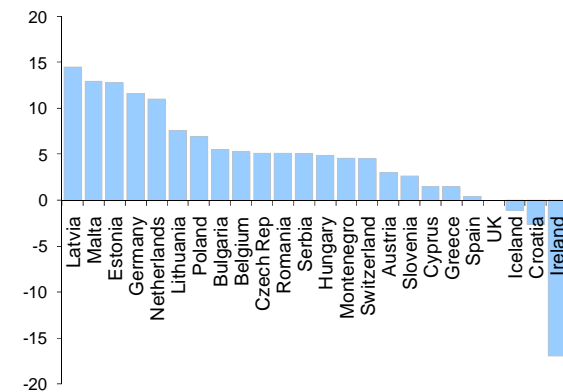
Leslie Vella
Chairman
ETC Market Intelligence Group

Executive Summary

- The travel recovery in Europe, and globally, continued into the waning months of 2010. Data show a slight acceleration of growth of visitor arrivals across Europe in general in late 2010, before the weather in December stalled travel.
- Both airline and hotel industry data confirm the recovery reported in arrivals data. Passenger growth on European airlines continued at a brisk pace since air space closures in April with only a brief lull in early autumn and before weather-related disruptions in late December.
- Occupancy rates in European hotels continued to rise through November and growth in average daily rates are evident for all but Southern Europe.
- Exchange rates have been favourable for many European destinations. Arrivals from Russia and Japan have grown strongly throughout the year while the US has exhibited some stronger growth in the latter part of the year.
- Travel within Europe has benefited from a steady economic recovery in parts of Europe with intra-regional travel continuing to comprise the bulk of arrivals. However, the economic outlook for Europe holds particular risks of a slowdown in 2011.
- Concerns over sovereign debt in Europe provide the greatest source of uncertainty. After the bailouts of Greece and Ireland by the EU/IMF, attention has turned to Portugal and Spain. These concerns are currently reflected in long term interest rates.
- The risk of any of the 'peripheral' Eurozone economies defaulting is not insignificant. The consequences of default would induce major losses for all European banks and the transmission through the global financial system risks a return to recession for most of the world.
- On the positive side, the corporate sector continues to hold large cash positions which we expect to lead to a boost in both hiring and investment.

Foreign Visits to Select Destinations

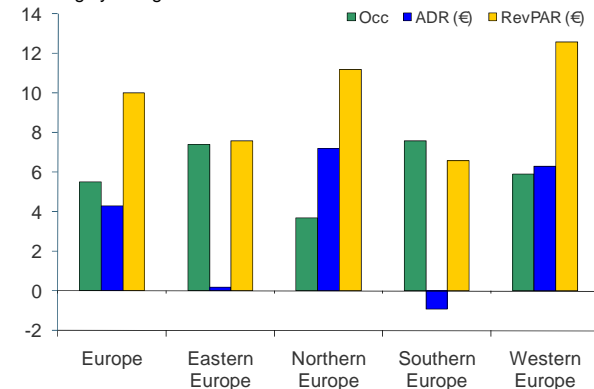
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Hotel Performance, Jan-Nov 2010

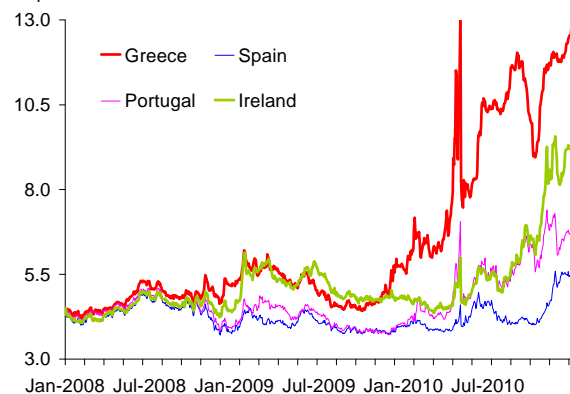
% change year ago



Source : STR Global

Eurozone: long term rates

% points



Source : Oxford Economics/Haver Analytics

Could the Eurozone debt crisis derail the recovery?

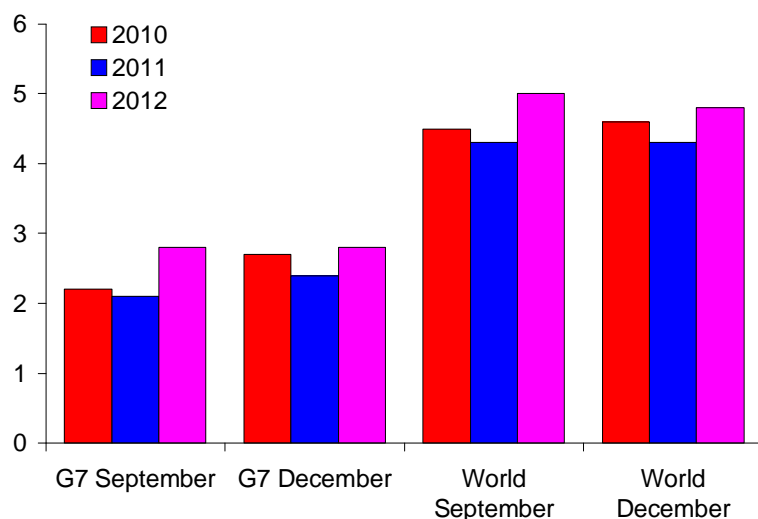
The global growth picture has improved slightly in recent months, with the pace of expansion picking up again in China, some encouraging indicators in the US and some surprisingly resilience in the Eurozone – despite the serious financial crisis that has continued to dog the ‘peripheral’ countries such as Greece, Portugal, Spain and Ireland.

Developments in the corporate sphere and money growth trends have also been broadly positive in recent months, and the latter will be reinforced by the US Fed’s decision in November to expand quantitative easing once again. Given the extent of spare capacity in the major economies, we continue to believe that monetary expansion is more likely to lead (in the near term at least) to faster output growth rather than inflation.

The near-term outlook has improved for developed countries, including the Eurozone, and 2011 should mark the year when recovery becomes embedded.

World: OE growth forecasts change

% GDP growth (at PPP)



Source : Oxford Economics/Haver Analytics

Given these developments, our central forecast is for 2011 being a year where the global recovery becomes more firmly embedded. There remain significant uncertainties around this central view, however. Growth is likely to slow in the first half of 2011 as the rebound in world trade moderates, and with continued private sector deleveraging there is still a risk the world could remain stuck in a sub-par growth pattern longer than we expect.

On the other hand, the strong financial position of corporates points to possible upside risks to growth based on a faster recovery of investment and employment.

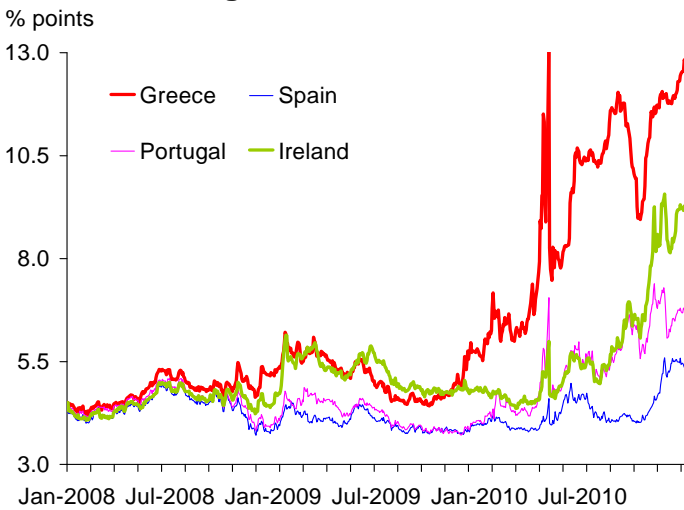
Global growth also remains at risk from an intensification of the Eurozone sovereign debt crisis. Despite a series of bail-outs this year, the crisis remains essentially unresolved with bond yields in the ‘peripheral’ Eurozone countries at very high levels, banking sectors under severe pressure and output stagnant or contracting.

Against this background, the risk of ‘austerity fatigue’ resulting in one or more of the Eurozone countries entering default is not insignificant, and such a

But the outlook remains uncertain and some slowdown in activity is likely for at least part of 2011

development could lead to one or more countries exiting the Eurozone. Policy options that might prevent this currently appear to be running up against serious political barriers.

Eurozone: long term rates



Default and exit from Eurozone cannot be ruled out for certain countries with significant risks for other countries

The financial consequences of defaults would be very serious, with major losses for European banks and a rapid transmission of financial distress from the Eurozone to the wider world. This in turn would risk plunging much of the world back into recession.

Such an outcome would present a huge challenge for policymakers. The scope for a fiscal policy response to a renewed downturn looks very limited, especially in the light of the recent violent reaction of US bond markets to tax policy decisions in the US. On the monetary side, there remains scope for an expansion of QE but this does bring with it possible inflation risks. A renewed downturn would also intensify the existing pressures on governments to weaken their currencies, with possible negative consequences for the integrity of the global trading system.

Given the potential for such negative outcomes, global policymakers can be expected to focus strongly on trying to avoid the Eurozone debt crisis sparking a wave of financial contagion. The key question will be whether any solution to the Eurozone debt crisis can be achieved without some form of debt restructuring.

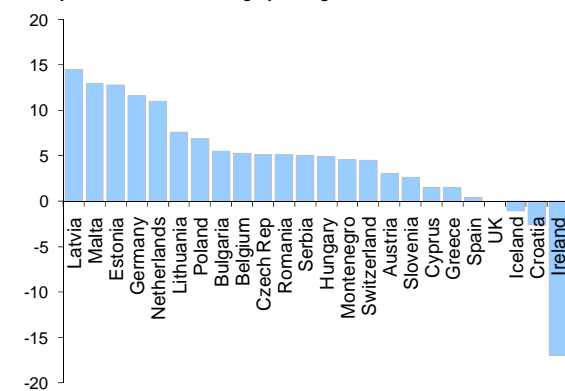
If restructuring is unavoidable, then policymakers need to consider what containment mechanisms can be put in place to prevent or at least ameliorate the kind of economic and financial spillovers outlined above. This could be a major theme for early 2011.

2010 Tourism Performance Summary

- International arrivals remained on an upward trajectory for most European destinations as 2010 came to a close. Of 25 countries reporting data for arrivals in TourMIS, all but 3 posted international tourist arrivals growth in the year to date. Of the countries reporting data through November, all have seen increases in growth rates over the months since our last report. Encouragingly, this trend is consistent across Europe implying a general lift in demand.
- Lodging sector performance attests to the increased arrival volumes. Hotel occupancy rates for the 11 months of 2010 for which we currently have data have pushed yet higher for most countries and only three countries report lower occupancy compared to 2009. Hoteliers in a majority of countries have been able to raise rates in response to demand. However, the pace of room rate growth slowed somewhat in late 2010.
- Intra-European travel continued to perform well but appears to be slowing. Outbound from the UK, Germany, and Russia grew further to most markets. But travel growth from France, Italy, and the Netherlands appears to be slowing. Long haul markets such as Japan, US, and Canada have been aided by a weaker Euro and further improvements are evident, but growth rates also slowed towards the end of 2010 as comparisons to the relatively higher volumes in late 2009 were registered.

Foreign Visits to Select Destinations

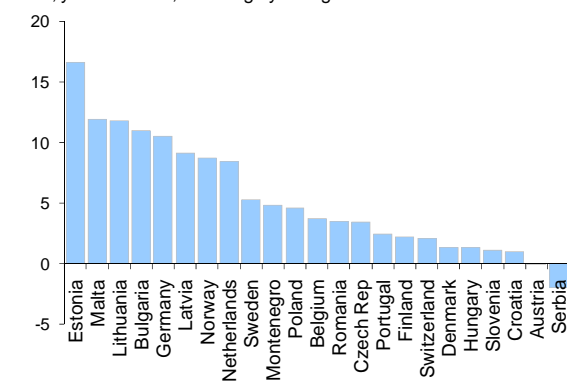
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Foreign Visitor Nights in Select Destinations

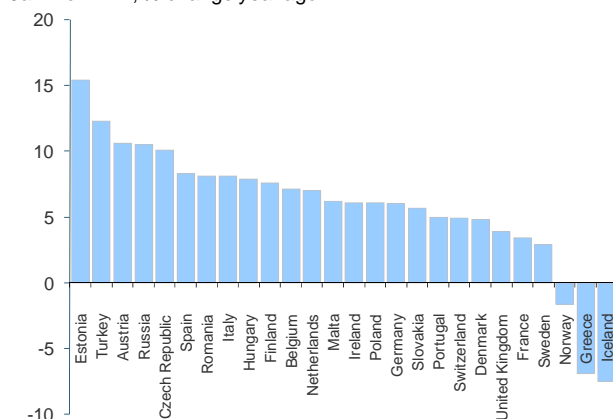
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Hotel Occupancy Rates

Jan-Nov YTD, % change year ago



Source : STR Global

2010 Performance, Year to Date									
Tourist Arrivals and Nights						Hotel Performance			
International Arrivals			International Nights			Hotel Occupancy		Hotel ADR (LCU)	
Country	% ytd	to month	Country	% ytd	to month	Country	to Nov	Country	to Nov
Latvia	14.5	Sep	Estonia	16.6	Nov	Estonia	15.4	Germany	12.4
Malta	12.9	Nov	Malta	11.9	Nov	Turkey	12.3	Malta	11.1
Estonia	12.8	Nov	Lithuania	11.8	Sep	Austria	10.6	France	5.0
Germany	11.6	Nov	Bulgaria	11.0	Sep	Russia	10.5	Sweden	4.8
Netherlands	11.0	Oct	Germany	10.5	Nov	Czech Republic	10.1	United Kingdom	3.6
Lithuania	7.6	Sep	Latvia	9.1	Sep	Spain	8.3	Netherlands	2.5
Poland	6.9	Sep	Norway	8.7	Oct	Italy	8.1	Belgium	2.0
Bulgaria	5.5	Nov	Netherlands	8.4	Oct	Romania	8.1	Norway	-0.8
Belgium	5.3	Aug	Sweden	5.3	Aug	Hungary	7.9	Switzerland	-1.0
Czech Rep	5.1	Sep	Montenegro	4.8	Sep	Finland	7.6	Greece	-1.1
Romania	5.1	Sep	Poland	4.6	Sep	Belgium	7.1	Portugal	-1.1
Serbia	5.0	Nov	Belgium	3.7	Aug	Netherlands	7.0	Spain	-1.2
Hungary	4.9	Nov	Romania	3.5	Sep	Malta	6.2	Italy	-3.4
Montenegro	4.6	Sep	Czech Rep	3.4	Sep	Ireland	6.1	Finland	-3.8
Switzerland	4.5	Jul	Portugal	2.4	Oct	Poland	6.1	Austria	-4.3
Italy	3.6	Jun	Finland	2.2	Oct	Germany	6.0	Estonia	-4.4
Slovakia	3.3	Dec	Switzerland	2.1	Nov	Slovakia	5.7	Poland	-5.3
Austria	3.0	Nov	Slovakia	1.6	Jun	Portugal	5.0	Iceland	-5.4
Slovenia	2.6	Dec	Denmark	1.3	Nov	Switzerland	4.9	Ireland	-5.9
Cyprus	1.5	Sep	Hungary	1.3	Nov	Denmark	4.8	Hungary	-6.1
Greece	1.5	Aug	Slovenia	1.1	Nov	United Kingdom	3.9	Turkey	-7.9
Spain	0.4	Nov	Croatia	1.0	Sep	France	3.4	Denmark	-8.5
UK	0.0	Dec	Austria	-0.1	Dec	Sweden	2.9	Russia	-8.9
Iceland	-1.1	Sep	Serbia	-2.0	Nov	Norway	-1.6	Czech Republic	-9.5
Croatia	-2.6	Sep				Greece	-6.9	Romania	-9.8
Ireland	-17.0					Iceland	-7.5	Slovakia	-13.4

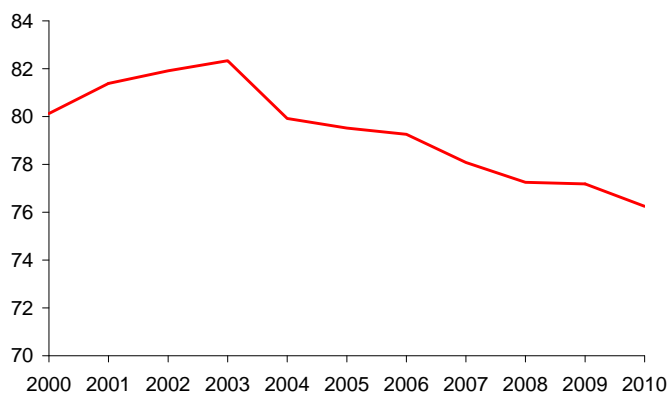
Sources: TourMIS, ETC, UNWTO, STR Global

Regional Market Share: 2000-2010

Travel to Europe accounts for more than half of global overnight visitor arrivals. A better way to examine share is to compare European arrivals with the total long haul outbound market plus all European outbound. This gives a truer measure of Europe's share of its global opportunity. (For example, regional travel in Asia is a different market entirely.) On this basis, we can see that Europe's market share has declined from 80% to 76% over the past decade. This is in part due to a generally strong euro making Europe a relatively expensive destination for international travellers while destinations outside of Europe grew more affordable for European travellers. More relevant are the development of destinations and increased accessibility to destinations outside Europe.

European Market Share of Travel

% of world long haul and Europe visitor arrivals

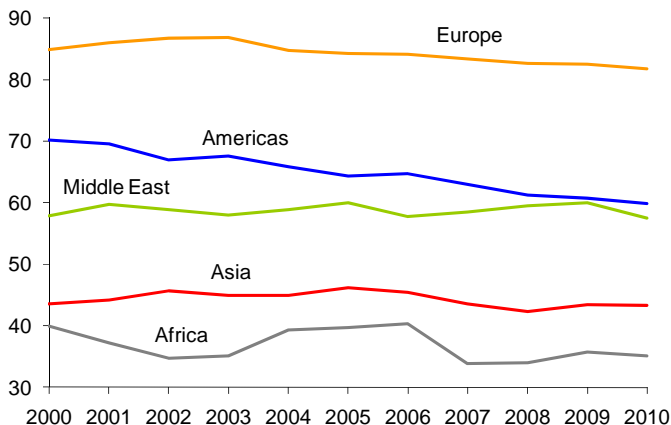


Source : Tourism Economics/Tourism Decision Metrics/UNWTO

The source markets exerting the largest contributions to the decline in market share since 2000 are the Americas and Europe itself. Travel within Europe accounts for approximately 88% of foreign visitor arrivals. The Americas are the largest source market (over 6% of visitor arrivals) outside of Europe. The Americas displayed the sharpest decline in market share, falling 10 percentage points in the past 11 years.

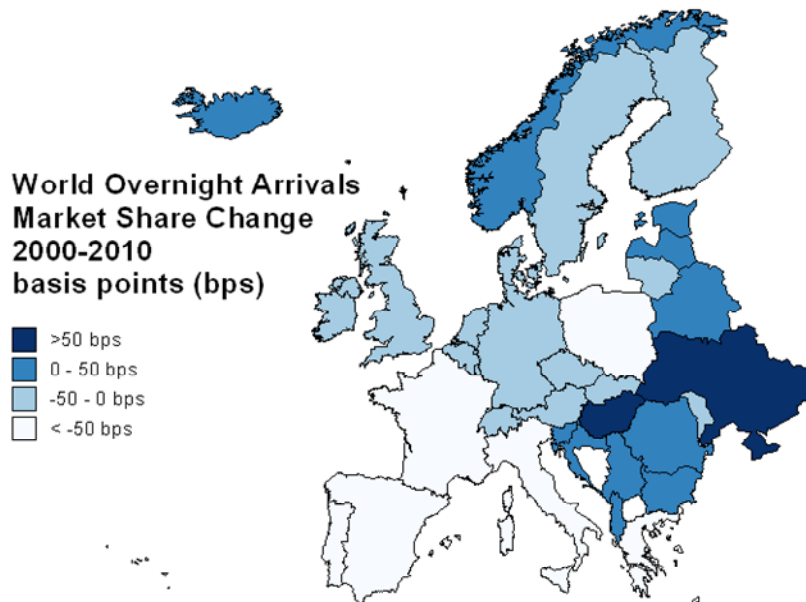
European Market Share of Travel

% of long haul markets (Europe includes all markets)



Source : Tourism Economics/Tourism Decision Metrics/UNWTO

Not all destinations in Europe have experienced market share decline over the last decade, however. Market share gains were concentrated mainly in Central and Eastern Europe (only 2 countries in Western Europe managed to gain share) with Hungary and the Ukraine among the top performers.



Source : Tourism Economics/Tourism Decision Metrics/UNWTO

Economy Overview

An uncertain start to 2011

- The economic story of 2010 has been economic growth beating expectations in emerging economies as well as in certain key developed markets (including Germany, UK and Japan)
- US growth was below expectations in 2010 and was a relative laggard, though recent data have been moderately encouraging
- Emerging Asia remains the powerhouse behind the global economic recovery
- There have been positive signs in data in recent weeks in the Eurozone, but slower growth remains likely in 2011 with significant fiscal tightening while debt default is still a large risk
- There remains a stark contrast between Germany's powering performance and the stagnating 'peripheral' Eurozone where the sovereign debt crisis risks derailing the global recovery

Global Overview

2010 is drawing to a close on an uncertain note. For much of the year, the story has been of growth beating expectations – firstly in the emerging countries, then in Germany, the UK and Japan. The big exception has been the US, which is set to expand 2.9% this year, consistent with our expectations at the beginning of the year. Rather than leading the global recovery, the US has proved a relative laggard. And in recent weeks, there have been more signs of economic resilience with survey data surprisingly strong in much of the Eurozone, despite financial volatility, and robust Q3 GDP growth in Japan

Alongside these positive signs, however, are continued fragilities. In the US, prospects for consumer spending look especially cloudy. Recent monthly data for retail sales and consumption have been moderately encouraging, with the latter now advancing at over 2% year-on-year.

But this is not a rapid growth rate either historically or for a recovery period, and US consumers still face considerable headwinds. The labour market is showing signs of a pulse as unemployment claims continue to trend lower with the unemployment rate falling to 9.4% in December from 9.8% the prior month.

And the housing market remains in a depressed condition, with foreclosures high and prices slipping again. Next year's outlook has been boosted by the extension of the Bush tax cuts and a payroll tax holiday, but the effect of these factors could be limited if households save a large part of the rise in disposable income – as happened in 2008.

Meanwhile, the Eurozone has seen a year of stark contrasts, with Germany powering ahead as a result of surging sales of capital goods overseas while the 'peripheral' Eurozone countries have continued to stagnate or contract under the pressure of financial crises and fiscal tightening. As the year ends, the financial crisis in the periphery is far from being resolved, and debt defaults –

which would have severe economic repercussions globally – remain a genuine threat.

Moreover, looking ahead to 2011 and 2012, the fiscal tightening induced by the crisis will weigh on growth in the Eurozone as a whole. We estimate that fiscal tightening of over 1% of GDP will take place in 2011, with further tightening in 2012. All this points to a very modest recovery.

The powerhouse of the global recovery remains Asia, except Japan where strong industrial growth earlier in 2010 has given way to contraction. In China, growth has picked up again after a mid-year soft patch. Uncertainties remain here too, however. In particular, concerns have grown recently about the potential overheating risk, with inflation rising and the authorities again moving to tighten policy in the past month.

Policy dilemmas are also confronting other emerging countries such as Brazil, where there is little spare capacity in the economy, but governments are reluctant to allow exchange rates to appreciate too far for fear of losing competitiveness – overheating risks are likely to remain a theme in the emerging world in early 2011.

In the major economies, meanwhile, the scope for further policy action to boost growth may be narrowing. At the November FOMC, the Fed announced a new programme of quantitative easing, with asset purchases that will increase broad money by 5-6% – a considerable stimulus. This comes on top of an already improving trend in the US in broad money growth and corporate liquidity.

However, part of the growth impact of this will have been negated by the sharp recent rise in long-term government bond yields. In part, this reflects investor concerns about the US fiscal position – not helped by recent tax policy decisions. If sustained, these higher yields could be a major headache for the Fed and other global policymakers in 2011, most of whom remain keen to keep policy settings accommodative given the uncertain outlook.

Summary of International Forecasts						
	2009	2010	2011	2012	2013	2014
Real GDP						
North America						
United States	-2.6	2.9	3.2	3.5	3.6	3.5
Canada	-2.5	2.9	2.4	3.4	3.8	3.6
Europe						
Eurozone	-4.0	1.7	1.5	1.7	2.0	2.0
Germany	-4.7	3.5	2.2	1.7	2.1	2.1
France	-2.5	1.5	1.8	2.0	2.1	2.0
Italy	-5.1	1.0	1.0	1.1	1.2	1.4
UK	-4.9	1.6	2.0	2.6	3.0	3.0
EU27	-4.2	1.8	1.8	2.1	2.4	2.4
Asia						
Japan	-6.3	4.2	1.1	2.1	2.0	1.8
Emerging Asia, excl Japan	5.3	8.9	7.3	7.7	7.5	7.4
China	9.1	10.1	9.2	9.1	8.8	8.7
India	6.8	8.8	8.2	9.0	8.8	8.4
World	-2.1	3.8	3.5	3.9	4.0	3.9
World 2005 PPPs	-0.8	4.6	4.3	4.8	4.8	4.7
World trade	-12.8	15.2	7.1	8.1	8.2	7.6

Recent Industry Performance

Growth steadies as it reaches potential

- Airport closures caused by winter storms restricted air passenger transport in late 2010.
- Hotel occupancy rates were resurgent in November and hoteliers continue to nudge rates higher in response to demand.
- While industry performance has continued to grow, the rate of expansion has steadied recently. More moderate growth will continue into 2011 as comparisons to the prior year overlap with the beginning of the recovery.

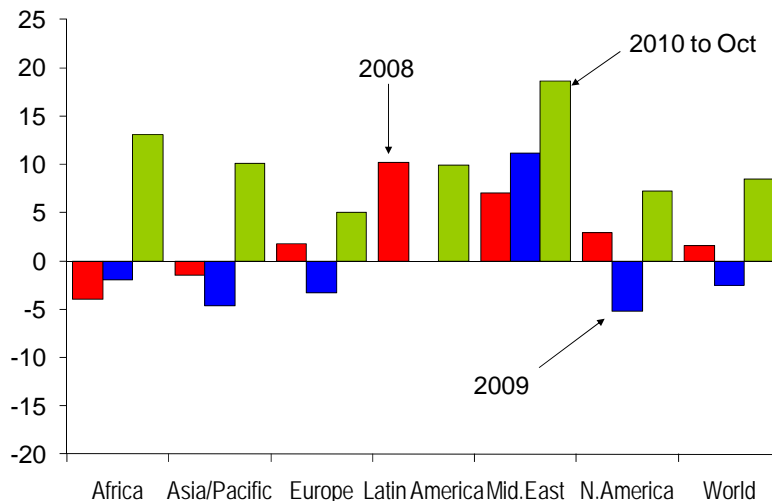
Air Transport

Global air travel continued to expand in late 2010. Through October, global revenue passenger kilometres (RPK) expanded 8.5%. The Middle East, Africa, and Asia/Pacific continued to grow in the double-digits with Latin America just behind. The European and North American market growth remained slower than the global average, although acceleration was recorded in the second half of the year.

Growth in air passenger demand in 2010 offset the 2009 falls in all world regions.

International air passenger growth by region

% year, RPK



Source: IATA

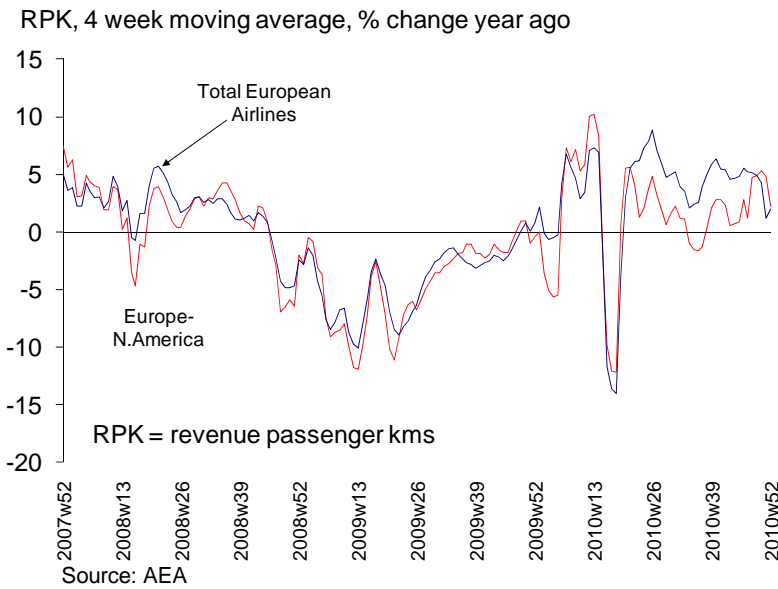
It should be noted that the rate of growth globally slowed as 2010 progressed. This is partly attributable to a slowing economic recovery but more so the effect of a stronger basis of comparison with 2009, which progressively improved.

Although severe winter weather put a damper on European airlines near the end of December, passenger growth on European airlines has consistently outperformed 2009 since the air space closures in April according to data from the Association of European Airlines.

Revenue Passenger Kilometres (RPK) expanded by an average of 5.5% in the last 15 weeks of 2010, despite the large disruption towards the end of the year,

when RPK fell nearly 10% during the winter storms. Performance was aided by strong growth from North America in the last month of the year.

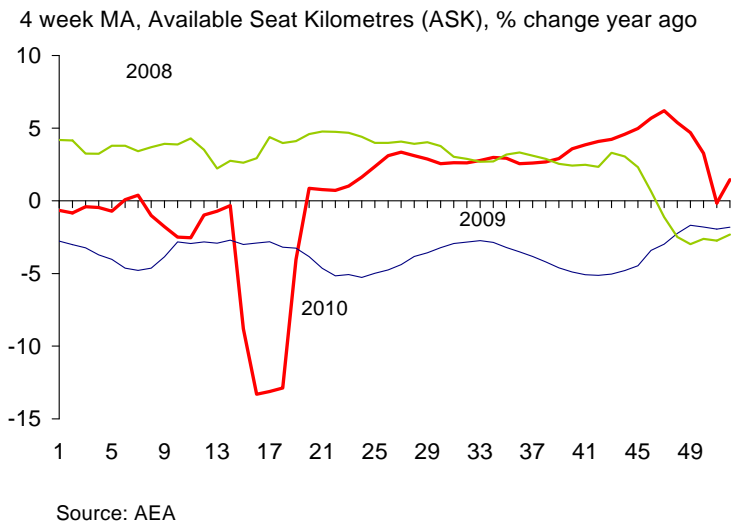
European airline passenger traffic



The expansion of capacity since the air space closures in April continued to the end of 2010 (fluctuating only during the winter storms). Capacity was added in earnest over the latter weeks of the year, with an average of 4.7% increase in Available Seat Kilometres (ASK) over the last 15 weeks (excluding the week of the storms). This addition of capacity did weaken load factors which have now fallen below 80% for the first time since mid year. But this is partly due to usual seasonal factors and load factors remained higher than for the same time of year in each of the previous 5 years.

Significant new air capacity was added in the second half of 2010, allowing continued growth in demand to be realised

European airlines capacity

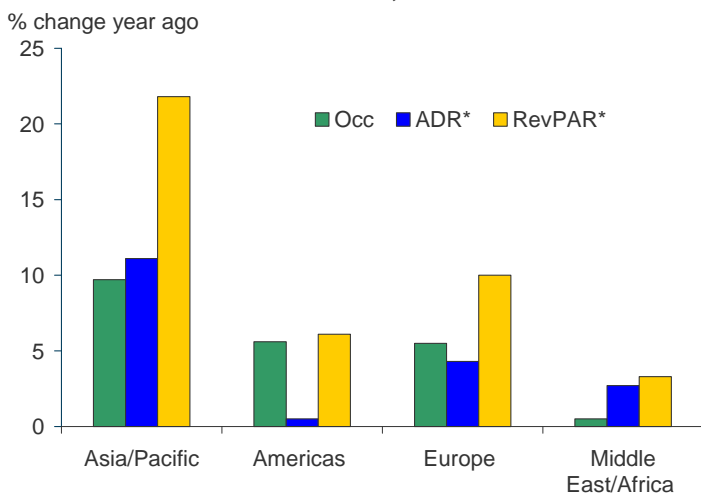


Accommodation

Hotel occupancy rates in 2010 outperformed 2009 across every region of the world, based on 11 months of data. Average daily rates (ADR) also posted growth in all regions. Yet rate growth is steady or even slowing in other parts of the world. Revenue per available room (RevPAR) continued to perform well in all regions, being led by Asia Pacific with a 22% jump for the year to date (with occupancy up 10%).

Occupancy rates are rising in every region of the world allowing ADR increases.

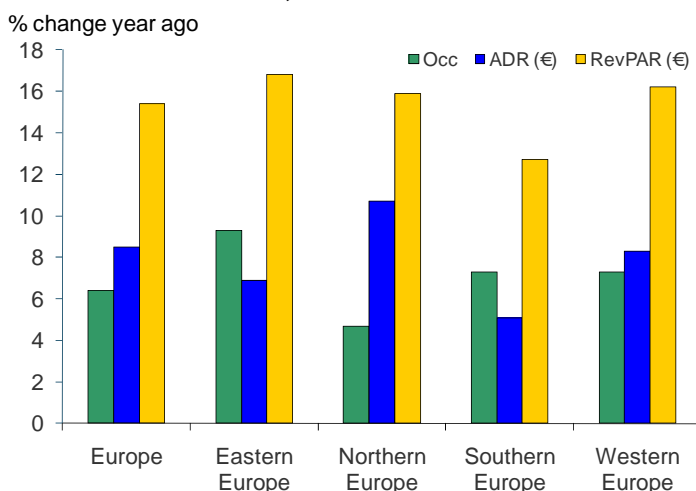
Global Hotel Performance, Jan-Nov 2010



Source : STR Global * Euro for Europe, \$US for other regions

Within Europe the lodging sector experienced significant gains throughout 2010. In November, hotel performance even accelerated from the pace set earlier in the year. All regions within Europe posted significant gains in the key metrics (occupancy, ADR and RevPAR) over November of 2009.

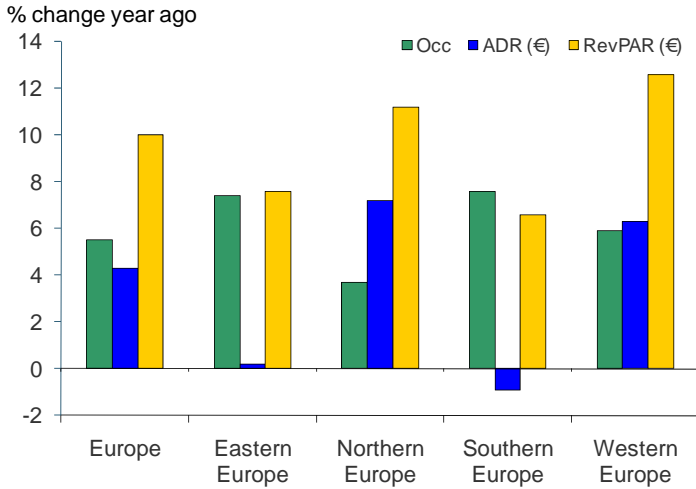
Hotel Performance, November 2010



Source : STR Global

Occupancy rates for the first 11 months of 2010 grew 5.5% for Europe as whole and improved in every sub-region. ADR in Eastern Europe turned positive for the year while ADR in Southern Europe continued to improve and is likely to finish 2010 just a fraction below 2009 rates. On average, ADR is 4.3% higher across Europe through November. RevPAR marched even higher across all regions, advancing by 10% for Europe on the year to date.

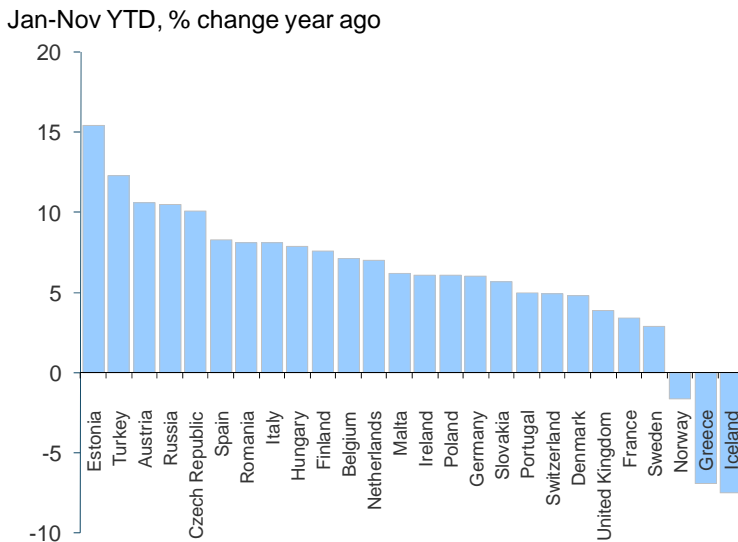
Hotel Performance, Jan-Nov 2010



Source : STR Global

Of the 26 countries with data reported by STR Global, 23 are showing growth in occupancy rates for the year through November. Of these, more than half realised stronger performance in November than the rest of the year..

Hotel Occupancy Rates



Source : STR Global

Key Source Market Performance

Growth moderating into the end of the year

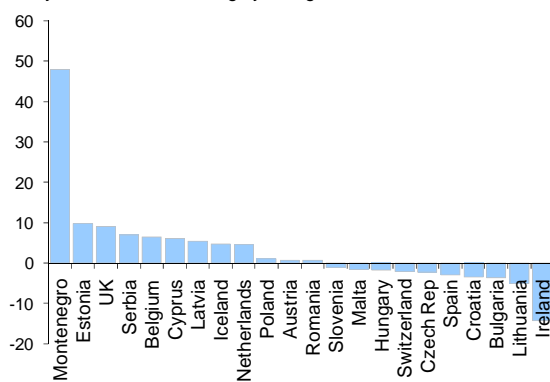
- Most European source markets appear to be peaking in growth
- UK and US arrivals continued growth into the autumn months, with UK lagging the broader regional recovery
- Arrivals from Japan stabilize, while Russian growth moderates

Key intra-European markets

The change in trend in German travel within Europe noted last quarter remains intact. German travellers continued to shift toward destinations outside their core region into the autumn months. Germans are also spending more time in these longer haul destinations. Within the core region (e.g. Austria, the Netherlands, and Poland), German travel growth continues to slow coupled with shorter trip durations.

Visits from Germany to Select Destinations

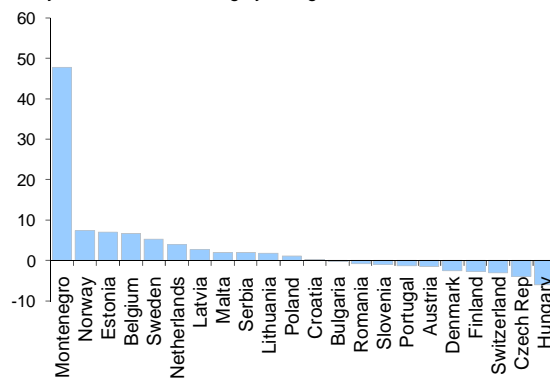
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

German Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago

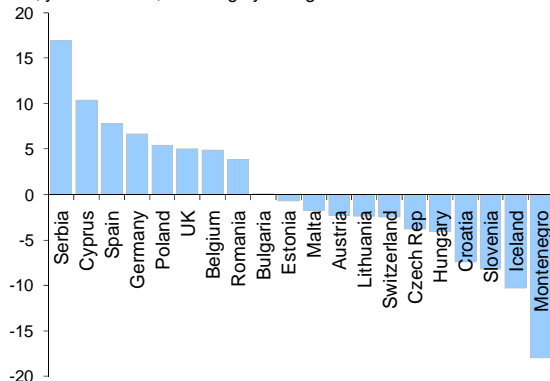


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Travel from the Netherlands to European destinations was lacklustre throughout 2010 and slowed even further towards the end of the year. Destinations are experiencing mixed results, but less than half of reporting destinations experienced an increase in arrivals from the Netherlands.

Visits from Netherlands to Select Destinations

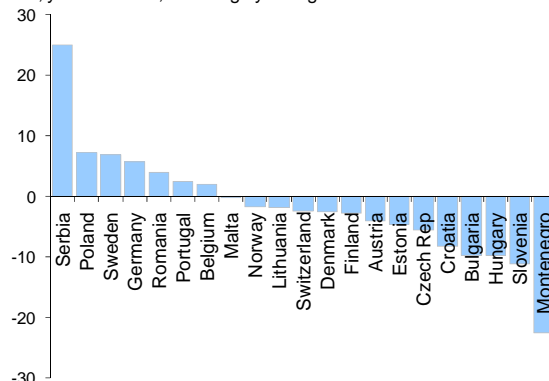
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Netherlands Nights in Select Destinations

2010, year-to-date*, % change year ago

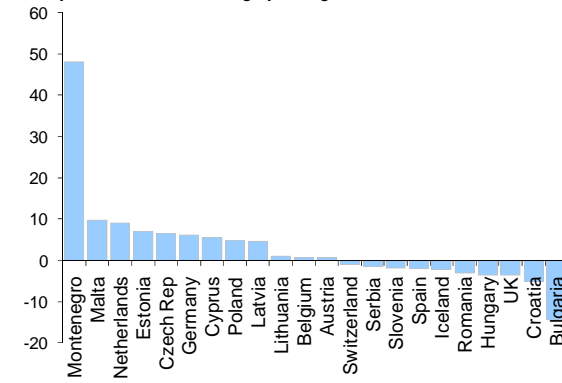


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

France remains a key source market within Europe and continues to perform well. The number of nights spent in destinations per trip by French travellers increased for a number of destinations. However, there are recent signs of slowing in arrivals growth as comparisons begin to bump against higher performance in the latter part of 2009.

Visits from France to Select Destinations

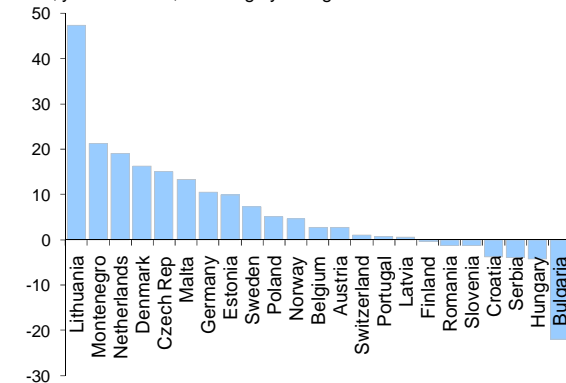
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

French Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago

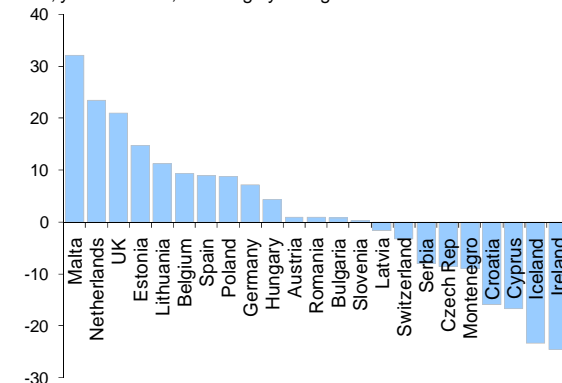


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Growth rates for visitors from Italy steadied in late 2010 for most destinations and there remains a roughly equal split between gainers and losers among reporting destinations. However, compared to earlier in the year the length of trips appears to have shortened as the number of nights spent abroad by Italians has slowed in relation to the number of visits for most destinations.

Visits from Italy to Select Destinations

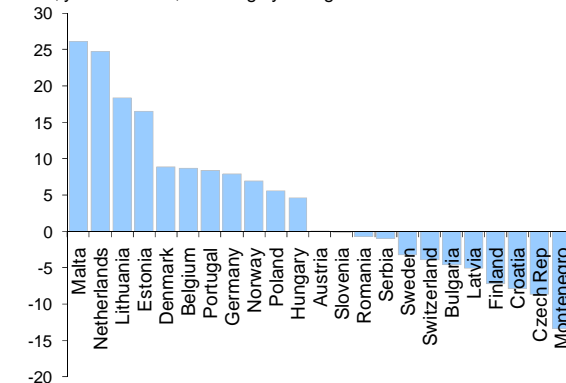
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Italian Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago

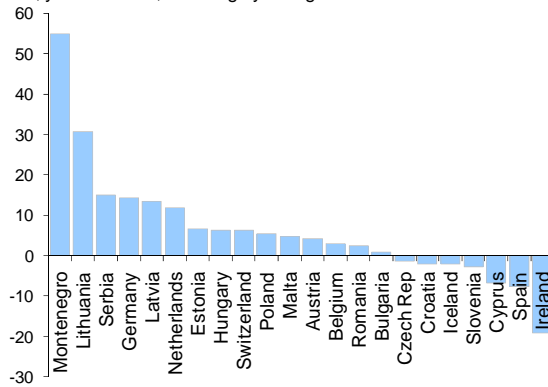


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

The turnaround of UK travel to Europe extended beyond the summer months and into the autumn for most destinations. As with the trend of most other source markets, UK travellers are generally spending less time in their destinations as sterling remains weak compared with recent history and travellers continue to look for value and cost savings..

Visits from UK to Select Destinations

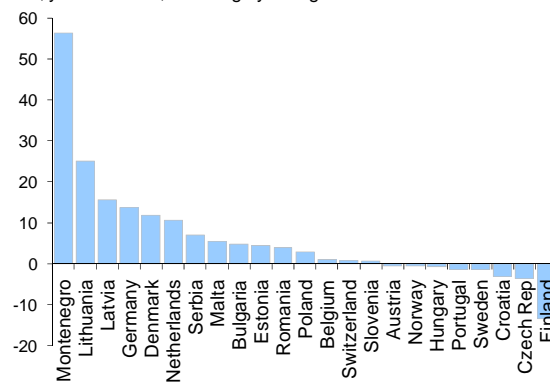
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

UK Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago

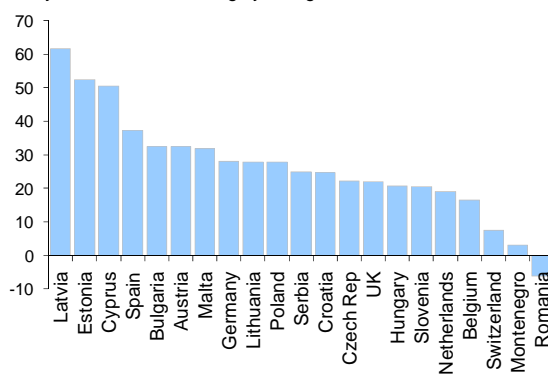


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

The recovery of travel from Russia remains firmly intact. While growth largely held or moderated for most destinations in late 2010, this was to be expected given the strong growth seen in the latter half of 2009. But notably, the length of stay of Russian travellers generally lengthened from earlier in the year.

Visits from Russia to Select Destinations

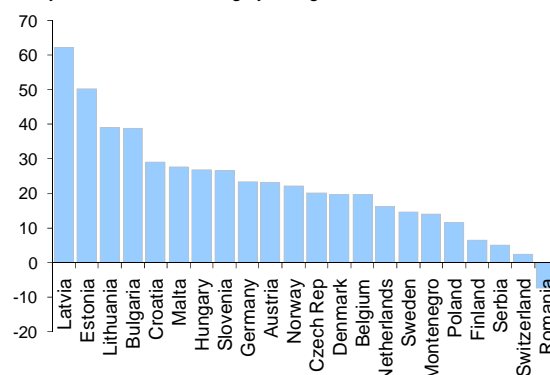
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Russian Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago



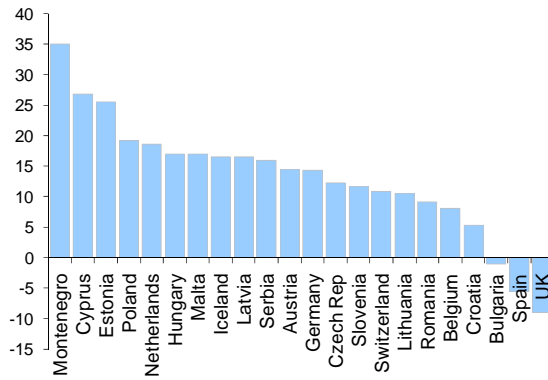
Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Non-European markets

Arrivals from the US accelerated through late 2010 for most destinations. While the turnaround in travel from the US was slowed by the ash cloud in April, r US outbound travel to Europe has rebounded according data from US Department of Commerce. Additionally, European airline data indicates relatively strong demand from North America in the last weeks of 2010.

Visits from US to Select Destinations

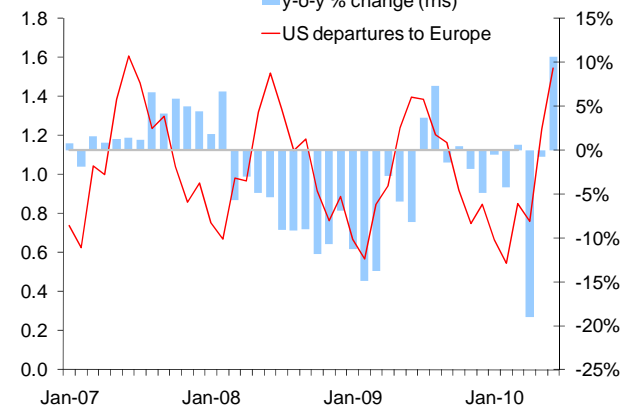
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

US Travel to Europe

Millions

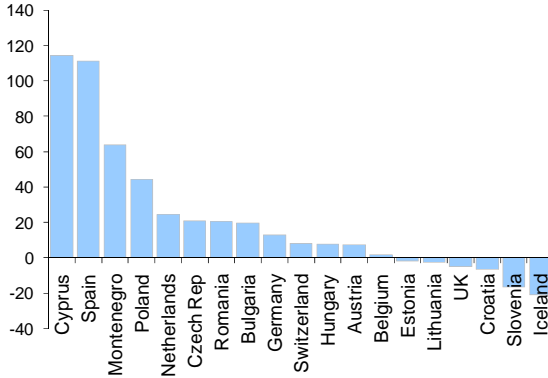


Source : OTTI, US Dept of Commerce

Japanese arrivals remained robust throughout 2010, holding on to or extending gains posted in the early part of the year for most destinations. Some notable exceptions are a reversal in Japanese arrivals to Estonia, Lithuania, and the UK which had been positive earlier but have since turned negative for the year.

Visits from Japan to Select Destinations

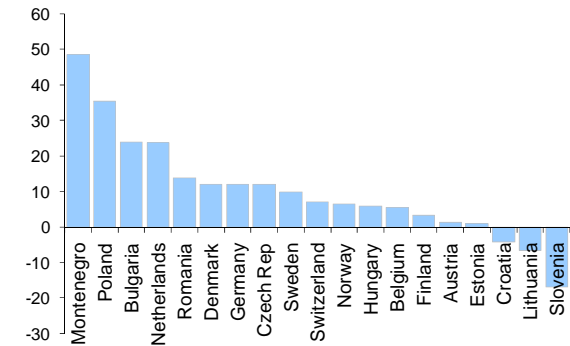
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Japanese Visitor Nights in Select Destinations

2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Our global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of our Tourism Decision Metrics (TDM) model, which is updated in detail three times per year. Full origin-destination country detail is available online to subscribers.

Global Tourism Forecast Summary Tables

TDM Overnight Visitor Growth Forecasts, Millions												
	Inbound*						Outbound**					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
World	915.8	875.3	922.1	960.1	1,003.9	1,036.7	1069.4	1018.9	1073.2	1128.6	1184.5	1226.1
Americas	147.3	140.5	148.6	154.3	162.5	169.1	137.9	134.6	143.8	149.4	158.5	165.7
North America	97.7	92.1	98.0	100.2	104.5	108.4	105.1	101.5	107.6	109.4	114.6	118.9
Caribbean	19.7	19.2	19.8	20.5	21.2	21.7	7.2	7.5	7.9	8.5	9.2	9.7
Latin America	29.9	29.2	30.9	33.6	36.7	39.1	25.7	25.7	28.2	31.4	34.7	37.1
Europe	480.0	451.4	461.2	472.9	490.0	504.3	571.4	535.2	549.6	568.4	586.6	603.3
EU15	323.8	304.8	311.2	315.9	324.9	333.1	301.6	291.8	296.6	301.5	307.9	313.5
Eastern Europe	113.3	103.7	106.7	112.7	118.3	122.1	239.8	213.8	221.7	234.3	244.0	253.9
Asia	179.7	175.3	194.7	209.8	224.6	235.2	250.7	250.5	274.6	299.1	321.5	335.6
North East	100.5	97.6	107.8	117.1	125.2	131.4	164.4	162.7	178.9	196.6	210.8	219.6
South East	60.5	61.3	68.8	73.2	78.3	81.4	62.5	64.5	70.3	75.6	81.8	85.9
South	8.2	7.8	8.6	9.2	10.0	10.5	15.7	14.8	15.9	17.0	18.9	20.3
Oceania	10.4	8.6	9.5	10.3	11.1	11.8	8.1	8.5	9.5	9.8	10.0	10.0
Africa	61.1	62.5	66.8	68.7	70.5	70.6	37.9	35.1	37.0	38.3	40.3	41.2
Mid East	47.7	45.6	50.9	54.4	56.4	57.4	71.4	63.5	68.3	73.4	77.6	80.2

* Inbound is based on the sum of the country *overnight* tourist arrivals and includes intra-regional flows

** Outbound is based on the sum of visits to all destinations

TDM Overnight Visitor Growth Forecasts, % change												
	Inbound*						Outbound**					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
World	1.9%	-4.4%	5.4%	4.1%	4.6%	3.3%	3.0%	-4.7%	5.3%	5.2%	5.0%	3.5%
Americas	2.7%	-4.7%	5.8%	3.8%	5.3%	4.1%	0.7%	-2.4%	6.8%	3.9%	6.1%	4.5%
North America	2.6%	-5.8%	6.4%	2.3%	4.3%	3.7%	0.7%	-3.4%	6.1%	1.7%	4.7%	3.7%
Caribbean	0.8%	-2.7%	2.9%	3.7%	3.6%	2.0%	-12.7%	3.5%	5.9%	8.2%	8.1%	5.2%
Latin America	4.5%	-2.3%	5.8%	8.7%	9.4%	6.4%	5.2%	0.0%	9.8%	11.2%	10.5%	6.9%
Europe	0.0%	-6.0%	2.2%	2.6%	3.6%	2.9%	0.6%	-6.3%	2.7%	3.4%	3.2%	2.8%
EU15	-1.8%	-5.9%	2.1%	1.5%	2.8%	2.5%	1.4%	-3.2%	1.6%	1.7%	2.1%	1.8%
Eastern Europe	2.6%	-8.5%	2.8%	5.6%	5.0%	3.2%	-0.5%	-10.8%	3.7%	5.7%	4.2%	4.1%
Asia	1.2%	-2.4%	11.0%	7.8%	7.0%	4.7%	3.6%	-0.1%	9.6%	8.9%	7.5%	4.4%
North East	0.0%	-2.9%	10.4%	8.6%	6.9%	5.0%	1.9%	-1.1%	10.0%	9.9%	7.2%	4.2%
South East	3.5%	1.3%	12.2%	6.4%	6.9%	4.0%	9.2%	3.3%	9.0%	7.6%	8.2%	4.9%
South	3.6%	-5.4%	11.3%	7.2%	8.2%	5.1%	0.3%	-5.7%	7.1%	6.8%	11.4%	7.2%
Oceania	-1.2%	-17.1%	9.3%	8.9%	7.5%	6.8%	4.5%	5.2%	11.7%	3.6%	1.2%	-0.2%
Africa	7.6%	2.3%	6.9%	2.8%	2.6%	0.2%	6.9%	-7.5%	5.3%	3.7%	5.0%	2.3%
Mid East	16.7%	-4.4%	11.7%	6.9%	3.7%	1.9%	27.5%	-11.1%	7.6%	7.5%	5.7%	3.4%

* Inbound is based on the sum of the country *overnight* tourist arrivals and includes intra-regional flows

** Outbound is based on the sum of visits to all destinations

Economic Outlook for Key Markets

Eurozone

The EU/IMF aid package to Ireland and the increased possibility of financial assistance being extended to Portugal saw a slight easing of Eurozone bond market stresses during the first week of December, but bond spreads remain very wide and tensions high.

Part of the easing in bond spreads reflected a sharp rise in German bond yields. This reflects in large part developments in the US, but may also indicate some concerns among investors at the potential fiscal cost to Germany of peripheral Eurozone bailouts.

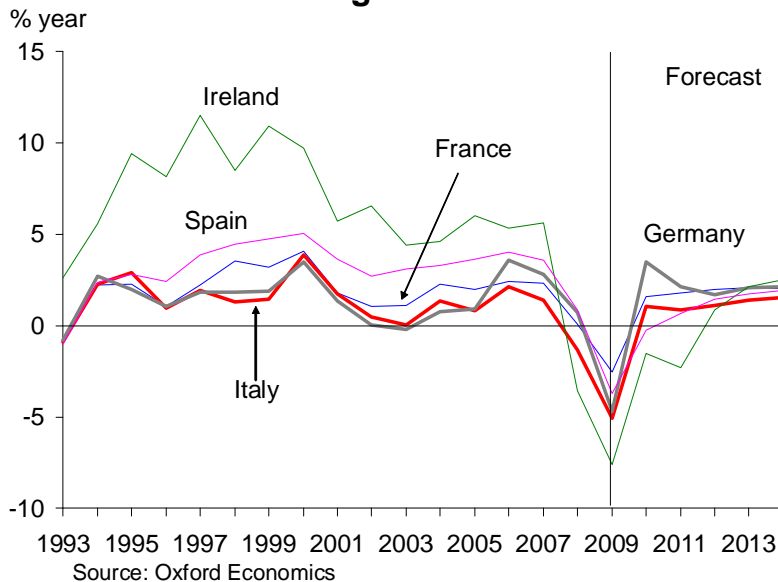
If sustained, the rise in long-term rates in the core Eurozone could pose a threat to what for now remains a surprisingly resilient growth pattern. The most recent PMI data showed robust expansion in Germany and France, with labour markets improving. In contrast, the growth performance in the peripherals remains poor.

Eurozone GDP is forecast to expand 1.7% in 2010 and 1.5% in 2011. But performance next year will be uneven, with strong German growth co-existing with stagnation in Spain and contraction in Portugal, Ireland and Greece.

The yawning growth gap between the core and the periphery poses problems for the ECB, as too quick a monetary tightening, dictated by strong growth in Germany, would be harmful for the slow-growing and highly indebted peripheral countries.

Bond spreads remain high reflecting real concerns about default and the associated risks to the growth outlook.

Core Eurozone GDP growth



UK Economy

The second estimate for Q3 GDP left quarterly growth unchanged at 0.8%. Earlier quarters were also unrevised, which was a little surprising given that a separate ONS report had included downgrades to the very strong construction output figures of the middle of the year. We would not be surprised if these were reflected in weaker estimates of GDP growth for Q2 and Q3 in subsequent releases.

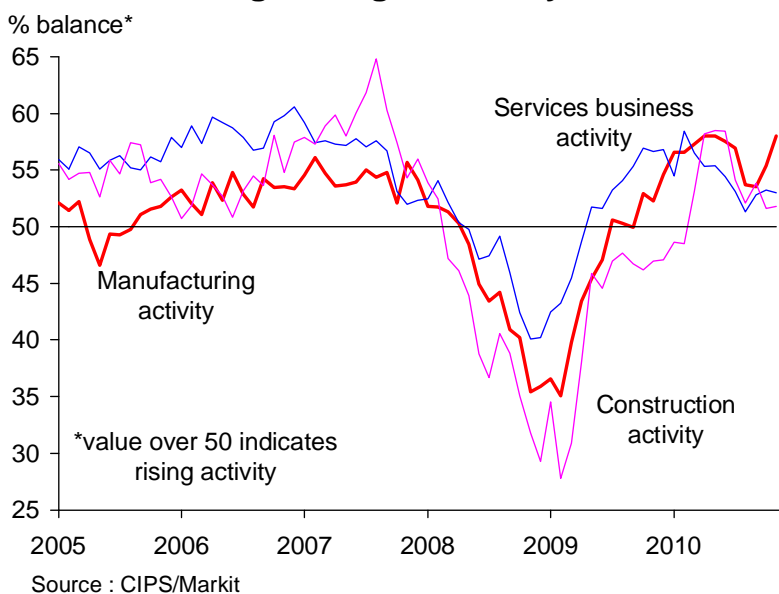
Recent business surveys appear to show a two-speed recovery developing, but with the traditional sectoral positions reversed. November's manufacturing PMI rose to its highest level for 16 years, boosted by stronger trends in both output and new orders. But results from the services survey have been more subdued, with the pace of expansion having dropped back markedly since the summer to a rate below the long-term average.

Overall Q4 growth is likely to be weaker than Q3, because construction is unlikely to continue to contribute as much as it has in recent quarters, but the recovery does have momentum behind it and January's VAT increase is also likely to cause some spending to be brought forward.

The majority of the Monetary Policy Committee have been content to maintain a watching brief in recent months. Though the VAT increase will keep inflation high next year, it is likely to drop back sharply once this falls out of the calculation, which will mean that interest rates can be held at 0.5% until the latter months of 2011.

Surprisingly strong economic rebound in 2010 was led by manufacturing while reported construction growth was unusually high. Slowdown is expected in 2011.

UK: Purchasing managers surveys



US Economy

Although we expect weak growth to persist in 2010Q4, prospects for a pick up in 2011 have improved. In part, this reflects the revisions to Q3 data; not only was GDP revised up, but the composition of growth was revised in favor of final demand.

In addition, the consumer sector is looking a bit stronger. While the employment report for November was a disappointment, consumer confidence has risen a bit and spending was relatively robust in October and November. The extension of the Bush tax cuts is not a factor, as it had been anticipated, but the payroll tax holiday will have an impact.

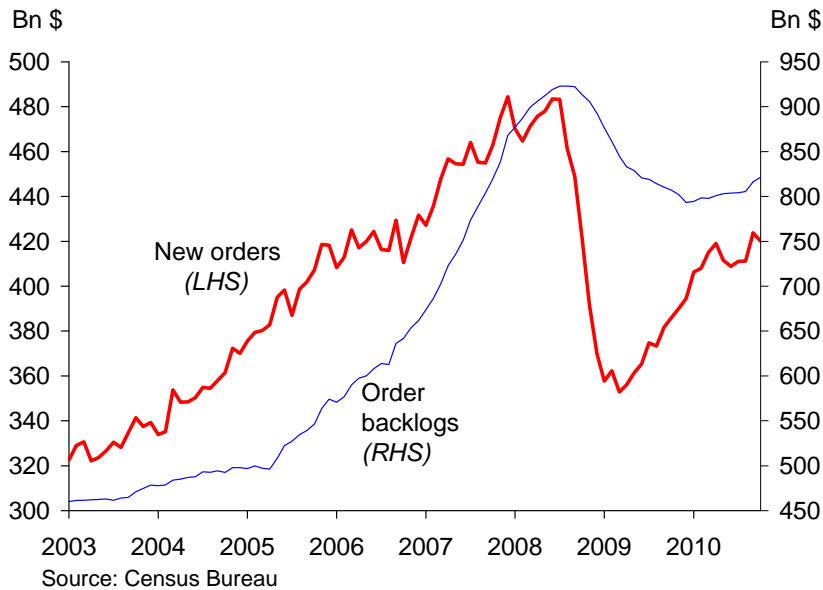
The housing sector remains weak, but is now basically flat rather than falling, and it accounts for a smaller share of GDP so the impact will be reduced.

The business sector remains flush with cash and capable of revving up investment and hiring when it perceives a sustained pick up in demand. Orders data have been volatile of late, but up significantly on a year-earlier basis. Long-term interest rates have been rising despite the Federal Reserve's second round of quantitative easing, but they are still very low.

After a relatively sluggish 1.8% rate in 2010Q4, we expect GDP growth to surpass 3% by mid-2011. On an annual basis, this would lift growth from 2.9% in 2010 to 3.2% in 2011 and then 3.5% in 2012.

2011 prospects have improved despite weaker than expected activity 2010

Orders and backlogs



Japan

Japan's GDP rose by an unexpectedly large 1.1% quarter-on-quarter in Q3. But the signs are that Q4 is likely to see a contraction and Japan risks slipping back into recession in 2011Q1 if domestic demand proves weak in the months ahead.

Consumer spending was boosted in Q3 by a last-minute rush to take advantage of expiring government incentives, rising 1.2% on the quarter. However, monthly data suggest consumer spending is already dropping back and labour market trends point to only modest growth ahead.

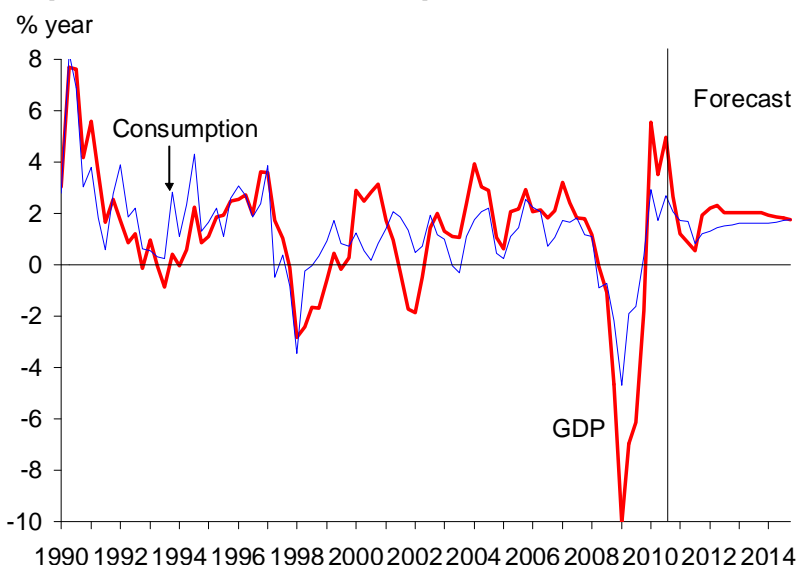
Investment also performed relatively well in Q3, but again the durability of this trend is questionable. Industry has now contracted for five straight months, with export orders slumping in the face of the strong yen. Machinery orders, a leading indicator of capital spending, fell in September and October.

Dwindling growth prospects and continued deflation have seen a series of policy interventions in recent months, including a new asset purchase programme and some limited budgetary measures.

However, these stimulus efforts are modest and the authorities have not persevered with what would probably have been a more effective policy – weakening the yen. After growth of around 4% in 2010, we see GDP rising only 1.1% in 2011 and 2.1% in 2012.

Recent strong growth represents temporary gains and there are large downside risks to the growth outlook for 2011

Japan: GDP and consumption



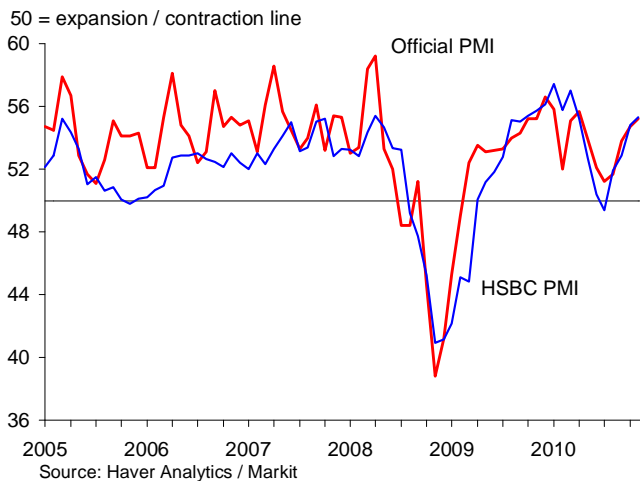
Source: Oxford Economics

Emerging Markets

In the middle of 2010 there were a range of indicators suggesting a loss of momentum in the Chinese economy. However, it now appears that this period was short-lived. The HSBC manufacturing PMI has risen for four consecutive months and at 55.3 in November was similar to the April level. In addition, the estimated seasonally adjusted level of Chinese imports has accelerated in recent months (particularly in November), lending growth has picked up and property prices have started to increase again. At the same time as this strengthening in the real economy, inflationary pressures have also increased, with rising food prices driving CPI inflation up to 5.1%, the highest since July 2008. As a result, over the last couple of months, the authorities have raised the key lending rate, increased banks' reserve requirements and pressured banks to restrain their lending – and further action is likely over the next few months. Inevitably, the financial markets are fearful that the authorities might over-tighten and thereby damage global growth, but the policy record of the Chinese is reasonably successful in recent years.

Chinese economy remains very strong but inflation is becoming a concern and tighter policy in response may limit future growth prospects

China: Manufacturing PMI



Although not all global commodity prices rose on average in November, there has still been a marked upward shift since mid-year; between June and November, an index of raw industrial material prices rose 17%, foodstuffs 19% and oil prices 16%. And these pressures are adding to the domestic ones generated by the scale of the recoveries in emerging Asia and parts of Latin America that have dramatically reduced the spare capacity opened up during the crisis. Reflecting these forces, in November the central banks of both Korea and Thailand resumed their nudging of interest rates up towards less stimulative settings. Moreover, the cost-push pressures faced by the emergers are sufficiently great that the Hungarian central bank, whose economy is still running well below its potential, decided to raise its key interest rate at the end of November.

Given its limited slowdown in late 2008 and early 2009, we estimate Indian GDP is very close to its potential level. The manufacturing PMI survey points to rising backlogs of work and shortages, which may be hindering output growth. But the much larger service sector saw growth accelerate in Q3, keeping year-on-year GDP growth at the unexpectedly strong pace of 8.8%. With any deceleration

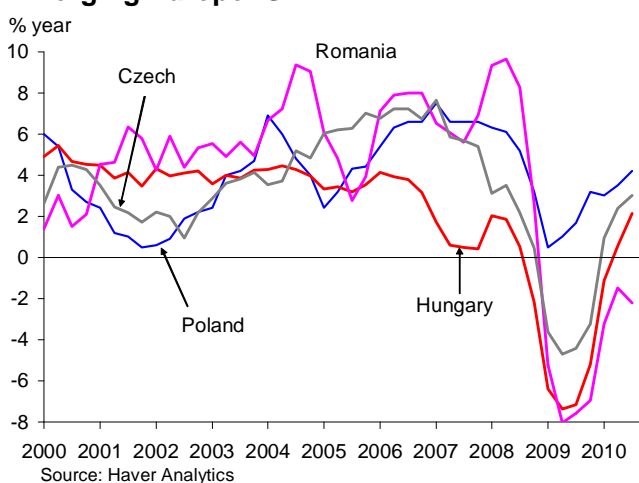
likely to be modest, we expect that the Reserve Bank will continue raising interest rates in 2011, to 7.5% from 6.25% now.

Having slowed in mid-year, at the same time as the economy appeared to lose some momentum, Brazilian inflation has picked up noticeably in the last couple of months. Moreover with unemployment at a record low (down 1.4% points on a year ago) and credit expanding strongly, the market now expects a resumption of interest rate rises in early 2011. With Brazilian interest rates already much higher (10.75%) than any other major economy, this will add to the upward pressure on the BRL. A major re-balancing of policy is required so that much tighter fiscal policy makes more of a contribution to controlling inflation, in time allowing monetary policy to be more in line with that of other countries.

While Hungary has raised interest rates, stronger economies in the CEE region have persisted with an unchanged policy. Czech and Polish GDP grew by 1.1% and 1.3% respectively on the quarter in Q3. However, quarterly growth in both countries is likely to lose momentum as EU demand weakens. Though showing some signs of improvement after the disruption caused by the exceptionally hot summer, the recent performance of the Russian economy has been fairly patchy, with retail sales held back by a sharp slowing in real wage growth; but investment growth has been reasonable and bank lending has picked up.

The recent escalation of the Eurozone debt crisis has made investors less willing to take risks and, as a result, flows of capital to the emergers have lessened compared to previous months. But though emerging stock markets have fallen from their highs, they are still well up on end-August levels. In addition to the well-known global risks, the rapid widening of the Turkish external deficit is a rising source of concern – particularly if global investor confidence really sours.

Emerging Europe: GDP



ETC Member Organisations

Austria	Austrian National Tourist Office (ANTO)
Belgium	Flanders: Tourist Office for Flanders Wallonia: Office de Promotion du Tourisme de Wallonie et de Bruxelles (OPT)
Bulgaria	Bulgarian State Agency for Tourism
Croatia	Croatian National Tourist Board (CNTB)
Cyprus	Cyprus Tourism Organisation (CTO)
Czech Republic	CzechTourism
Denmark	VisitDenmark
Estonia	Estonian Tourist Board - Enterprise Estonia
Finland	Finnish Tourist Board (MEK)
France	Atout France - France Tourism Development Agency
FYR Macedonia	Agency for Promotion and Support of Tourism
Georgia	Department of Tourism and Resorts of Georgia
Germany	German National Tourist Board (GNTB)
Greece	Greek National Tourism Organisation (GNTO)
Hungary	Hungarian National Tourist Office (HNTO)
Iceland	Icelandic Tourist Board
Ireland	Fáilte Ireland and Tourism Ireland Ltd.
Italy	Italian State Tourism Board (ENIT)
Latvia	Latvian Tourism Development Agency (LTDA)
Lithuania	Lithuanian State Department of Tourism
Luxembourg	Luxembourg National Tourist Office
Malta	Malta Tourism Authority (MTA)
Monaco	Department of Tourism and Conferences
Montenegro	National Tourism Organisation of Montenegro
Netherlands	Netherlands Board of Tourism & Conventions (NBTC)
Norway	Innovation Norway
Poland	Polish National Tourist Office (PNTTO)
Portugal	Turismo de Portugal, I.P.
Romania	Ministry of Tourism
San Marino	Ministry of Tourism
Serbia	National Tourism Organisation of Serbia
Slovakia	Slovak Tourist Board
Slovenia	Slovenian Tourist Board (STB)
Spain	Turespaña - Instituto de Turismo de España
Sweden	VisitSweden
Switzerland	Switzerland Tourism
Turkey	Ministry of Culture and Tourism
Ukraine	National Tourist Office
United Kingdom	VisitBritain